

District
Director

Person to Contact

Telephone Number

Refer Reply to

Date DEC 12 1985

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under section 501(c)(5) of the Internal Revenue Code.

The information submitted with your Form 1024 application discloses that you were incorporated on [REDACTED] as a nonprofit organization in the State of [REDACTED].

The Income Tax Regulations, section 1.501(c)(5), describe organizations contemplated by section 501(c)(5) of the Code as those organizations which have no net earnings inuring to the benefit of any member and have as their objects the betterment of the conditions of those engaged in such pursuits, the improvement of the grade of their products and the development of a higher degree of efficiency in their respective occupations.

Agricultural and horticultural organizations are exempt as organizations described in section 501(c)(5) if no part of their net earnings inures to the benefit of any member and if their objectives are the betterment of the conditions of members, the improvement of the grade of their products and the development of higher efficiency. Agricultural organizations are those connected with raising livestock, forestry and raising of crops, the cultivation of useful or ornamental plants and similar pursuits.

Your purposes as stated in your Articles of Incorporation is "to establish a reputation for production tested bulls in [REDACTED] County so as to improve production and marketability for bull producers."

When asked to describe your activities in Form 1024 you repeated word for word, the language of the Articles of Incorporation. In response to developmental questions sent your organization on [REDACTED], you provided more detailed information. Presently, you have [REDACTED] "members". They become a member by paying the entry fee of \$[REDACTED] for the production bull test. Members meet bi-monthly to discuss test

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requirements, number of bulls anticipated and sale dates. You incur advertising expenses before an annual sale which notify cow-calf producers outside the county of the upcoming sales. These ads are placed in area magazines and newspapers and on radio. Sale expenses that the organization incurs includes the cost of renting the sale barn, the hiring of an auctioneer as well as a sales-ring man, the cost of woodshavings for the sale ring area, and other miscellaneous expenses.

Your organization was asked in our developmental letter to you how you are bettering the general conditions of those engaged in agriculture through these production bull tests. You stated that you make available to the commercial cow-calf producer or seedstock producer yearling bulls with "Complete performance records". (Emphasis added.) By using the production information the bull tests provide, you state that producers can select the bulls that have the greatest potential for their herd.

It is the position of the Internal Revenue Service that your primary activity of production bull testing constitutes the performance of direct services for your members in the particular county in which they reside. In this connection, see Revenue Ruling 70-372, Cumulative Bulletin 1970-2 page 118. The Service held that an organization composed of agricultural producers and formed to process production data for farmers for use in improving milk production in their own dairy herds, was not exempt under Section 501(c)(5) of the Internal Revenue Code. The basis of the conclusion was that the processing of production and test records for individuals was a service which simply relieved the individual farmers of work that they would normally perform themselves and did not of itself better the conditions of those engaged in agricultural pursuits, improve the grade of their products or develop a higher degree of efficiency in their operation.

It is evident from the above paragraph that your organization is not the type of organization referred to in section 501(c)(5) of the Code.

Since the evidence submitted fails to show that you have as your object the betterment of the conditions of those engaged in agricultural pursuits, the improvement of the grade of their products and the development of a higher degree of efficiency in their respective occupations, it is our determination that you are not entitled to exemption as an agricultural organization under section 501(c)(5) of the Code of 1954. Accordingly, you are required to file Federal Income Tax returns on Form 1120.

In light of our conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (or requested) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be

[REDACTED]
[REDACTED]
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In order to be representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains your rights and procedures.

Please keep this determination letter in your permanent records.

If you agree with this determination, please sign and return the enclosed Form 6010.

Sincerely yours,

[REDACTED]
District Director

Enclosures: Form 6010
Publication 892